Tokologo
LOCAL MUNICIPALITY

Investment and Cash Management Policy

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INVESTMENT AND CASH MANAGEMENT POLICY

Bank and Cash in Terms of the Local Government Transition Act no. 209 Of 1993, as amended, Section 10g (2) (a) and Municipal Finance Management Act no. 56 Of 2003, chapter 3, part 1.

(A) DEFINITIONS

In this Investment and Cash Management Policy, unless the context otherwise indicates, a word of expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act No. 56 of 2003 and other related legislations/regulations, has the same meaning as in that Act.

Accounting Officer: is the Municipal Manager.

Act: means the Local Government: Municipal Finance Management Act No. 56 of 2003, the Local Government: Municipal Systems Act No. 32 of 2000.
Accounting Principles: mean stipulated guidelines to be followed.
Acquisition: means acquiring goods or services through procurement policies.
Agents: mean professional bodies appointed to execute a specific -task on behalf of the Tokologo Local Municipality.
Accounts: mean statement of moneys received.
Assignee: means a person with a delegated authority.
Bank: means an institution recognized by the Registrar of Banks.
Bank Accounts: is the recognized statement of financial transactions on behalf of the municipality.
Cash: means money, such as bank notes and coin, or cash equivalents.
Chief Financial Officer: means a responsible official for financial affairs of the
Investment Ethics: mean ethical framework within which investments must take place.
Liquidity: means the ease with which financial instruments can be converted to cash or cash equivalents.
Municipal Entity: means the developmental arm of the municipality established in terms of the Local Government: Municipal Finance Management Act No. 56 of 2003, in particular.
Municipality: means the Tokologo Local Municipality.
Ownership means: all investments must be made in the name of the Tokologo Local Municipality.
Short term investment: means a financial instrument with a lifespan or maturity of less than 1 year.
Long term: means financial instrument with a lifespan or maturity of greater than a year.

(B) INTRODUCTION

In terms of the Municipal Finance Management Act, Act 56 of 2003, and Section 13(2):

"Each Municipal Council and Governing body shall adopt by resolution an investment policy regarding the investment of its money not immediately required. An Accounting Office has an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible.

Competitive investment and effective cash management ensures both short term and long-term viability and sustainability of the municipality. Hence, it is critical for the Tokologo Local Municipality to have its own investment and cash management policy located, within the local government legislative framework. This policy should be read and understood against this background.

(C) OBJECTIVE OF THE POLICY

The primary and the ultimate goal of the investment of funds is to earn the safety of returns on investment principal, an amount invested whilst managing liquidity requirements and, providing the highest return on investment at minimum risk, within the parameters of authorized instruments as per the MFMA.

(D) CASH FLOW ESTIMATES

Before money can be invested, the Accounting Officer or his/her delegate must determine whether there will be surplus funds after meeting the necessary obligations. To be able to make investments for any fixed terms; it is essential that cash flow estimates be drawn up. The Auditor-General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

(E) INVESTMENT ETHICS

- The Municipal Manager, Chief Financial Officer or their delegate are responsible for the investment of funds and must ensure that there is no interference in these processes.
- No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her relationship with the said institution.
- The gift must be declared to their Superior.

The Municipal Manager, Chief Financial Officer or their delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the Municipal Council. Excessive gifts and hospitality should be avoided at all costs.

1. Risk Management

The preservation of principal is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Municipal Manager, Chief Financial Manager or their nominee prudently manages risk exposure. Risk profiles

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should be minimized by only placing investments with institutions and instruments approved by the Public Investment Commission or the Republic of South Africa: National Minister of Finance.

2. Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. investment officials are required to:

a. Adhere to written procedures and policy guidelines.
b. Exercise due diligence.
c. Prepare all reports timeously.
d. Exercise strict compliance with all legislation.

3. Ownership

All investments must be made in the name of the Tokologo Local Municipality.

(F) DELEGATION OF AUTHORITY

The delegation to authorise investments must distinguish between short term & long-term investments. The authority to make long-term investments as provision of security is vested with the Municipal Council in terms of Section 48 of the MFMA and with reference to section

11(1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the Municipal Manager or Chief Financial Officer or any other senior financial officer authorised by the Municipal Manager or the Chief Financial Officer/relevant assignee.

The Local Government Municipal Systems Act of 2000, Section 3, (60) (2) states that the Municipal Council may only delegate to an Accounting Officer, Executive Committee or Executive Mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.

The Chief Financial Officer is responsible for the investment of municipality's funds that are made under section 13 of the Municipal Finance Management Act.

(G) INVESTMENT ISSUE PERTAINING TO MUNICIPAL COUNCIL APPROVAL

In the event that an investment that needs to be made, quotations are required from the various financial institutions, in the case of telephonic quotations, the following information is required:

- The name of the person, who gave the quotation,
- The relevant terms and rates and
- Other facts such as if interest is payable on a monthly basis or on a compound basis upon maturation.

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Where payments to financial institutions in respect of investments are to be effected by cheque, the following procedures must apply:

- The designated official must complete a cheque requisition form and submit it to the Chief Financial Officer together with the supporting quotations,
- The Chief Financial Officer must either authorize the requisition or submit it to the Municipal Council for authorization depending on the value of the investment,
- When the Municipal Council or the Chief Financial Officer has authorised the requisition, the Chief Financial Officer and his delegated signatories are required to sign the cheque and submit it to the financial institution concerned. All investment documents must be signed by two authorised cheques signatories.

The Chief Financial Officer must ensure that a bank, insurance company or other financial institution, which at the end of a financial year holds, or at any time during a financial year held, an investment for the municipality must:

- Within 30 days after the end of that financial year, notify the Auditor-General in writing, of that investment , including the opening and closing balances of that investment in that financial year and
- Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.
- Promptly disclose information of any possible or actual change in the investment portfolio that could or will have a material adverse effect.

(H) MUNICIPAL ENTITIES

The board of Directors of all municipal entities must adopt this cash management and investment policy. Further, the municipal entities must submit reports, as detailed in the reporting and monitoring procedures, in the same manner as Tokologo Local Municipality, to the Executive Mayor. The Executive Mayor must on a monthly basis, table an investment report to Council, detailing investments made and withdrawn during the month.

(I) POLICY REVIEW

The investment policy must be reviewed annually and be tabled to the Municipal Council for approval.

(J) INTERNAL CONTROL PROCEDURES

An investment register should be kept of all investments made. The following facts must be indicated:

- Name of institution
- Capital invested;
- Date invested;
- Interest rate; and
- Maturity date and

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- Interests earned on investments.

The investment register and accounting records must be reconciled on a monthly basis.

The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer/assignee as instructed, to identify investments falling due within the next two weeks. An investment plan must then be established for the next calendar month bearing in mind the cash flow requirements.

Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his/her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:

- Fixed deposit letter or investment certificate;
- Receipt for capital invested;
- Copy of electronic transfer or cheque requisition
- Schedule of comparative investment figures;
- Commission certificate indicating no commission was paid on the investment; and
- Interest rate quoted.

Al investment must be denominated in South African Rand (ZAR)

The Chief Financial Officer or his/her assignee is responsible for ensuring that the invested funds have been invested with financial institutions approved by the Republic of South Africa: National Minister of Finance, Public Investors Commission or with a bank rating of AA and endeavour to minimize risk exposure.

(K) REPORTING AND MONITORING PROCEDURES

The Municipal Manager or his assignee must within 10 days of the end of each month submits to the Executive Mayor or Finance Standing Committee a report describing in detail the investment and cash flow position of the municipality as at the end of the month.

The report must contain a statement, prepared in compliance with generally recognized accounting principles/generally accepted municipal accounting principles, that states the:

- beginning market value for the period
- additions and changes to the market value during the period
- ending market value for the period
- fully accrued interest/yield for the reporting period
- the credit risk rating for the institutions whose securities are held by the municipality as at beginning and end of the reporting period
- investments disposed of due to adverse changes in credit ratings
- diversification of investments.
- any investments locked into a time period with an institution that has a rating that is not acceptable according to Fitch, Naspers, Caratings or a recognized rating

institution.

(1) PERMITTED INVESTMENTS

The Republic of South Africa: National Minister of Finance may identify by regulation in terms of Section 168 of the Municipal Finance Management Act instruments or investments other than those referred to below in which Municipality may invest:

- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act No. 5 of 1984);
- Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act 1984 (Act 46 of 1984);
- Bankers acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- Municipal Bonds issued by a Municipality
- Guaranteed endowment policies with the intention of establishing a sinking fund; and
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

(M) EXISTING INVESTMENTS

Current investments that were not permitted investments at the time of purchase do not have to be liquidated.

(N) INVESTMENT DIVERSIFICATION

The Chief Financial Officer must ensure that available money is not invested with one institution. Investment will be restricted to institutions with a minimum credit rating of [AA]. The maximum term for any investment, may be 2 years, other than ceded investments.

(O) PERFORMANCE EVALUATION

The performance of the investment portfolio must be evaluated quarterly. The time weighted yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government. A report discussing the performance of the investment portfolio must be submitted to the Chief Financial Officer within 10 days of the end of each quarter.

(P) USE OF INDEPENDENT INVESTMENT MANAGERS

Should the need arise to use an investment manager at the cost of Council; one will be appointed using Supply Chain Management principles and practices.

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(Q) CASH MANAGEMENT

The Chief Financial Officer, inter-alia, has to ensure financial viability and sustainability of the municipality. In order to achieve this in a sustainable manner, the Chief Financial Officer must ensure that internal financial systems and controls are in place that will enable the Municipality to detect the mismanagement of funds.

(R) PAYMENT OF CREDITORS

Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors, where possible, to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls). When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

- In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, must in most cases be more than any investment benefit that could be received from temporarily investing the funds.
- If discounts are offered for early settlement they must be properly considered and utilized.

Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilized to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

(S) BANK AND CASH IN TERMS OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT Act NO.56 of 2003, Chapter 3, Part 1.

- All names of bank accounts must be changed to the name of the newly created municipality,
- New bank accounts must be opened if required,
- All cheques received from the disestablished municipalities must be banked,
- All bank accounts currently held and transferred to the municipality must be accounted for in the new accounting system,
- The official responsible must ensure that the name change on the accounts has been effected,
- All bank and cash must be made in terms of the Cash Management Policy,
- Every municipality must open and maintain at least one bank account in the name of the municipality and
- All money received by a municipality must be paid into its bank account in the name of the municipality as per the abovementioned legislative framework.

(T) MANAGEMENT OF STOCK

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock by the Chief Financial Officer.

(U) SHORT- AND LONG-TERM DEBT

A municipality may only incur debt in terms of the Municipal Finance Management Act No. 56 of 2003.The municipality may incur two types of debt, namely short-term and long-term debt.

1. SHORT-TERM DEBT

A municipality may incur short-term debt only when necessary to bridge:

- Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year or
- Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long- term debt commitments.

A municipality:

- Must pay off short-term debt within a financial year and
- May not renew or refinance its short-term debt.

2. Long-Term Debt

A municipality may incur long-term debt for purpose of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government.

- To provide democratic and accountable government for local communities,
- To ensure the provision of services to communities in a sustainable manner,
- To promote social and economic development,
- To promote a safe and healthy environment and
- To encourage the involvement of communities and community organizations in the matters of local government.

(V) CONCLUSION

The Municipal Manager and the Chief Financial Officer must ensure that the operationalisation of this policy is done according to the above prescripts. Any deviations due to unforeseen circumstances must be brought to the attention of the Municipal Council in a written form and recommended remedial solutions thereof.

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